

MINUTES OF THE REGULAR MEETING
OF THE HOUSING AND COMMUNITY DEVELOPMENT
CORPORATION OF HAWAII
HELD AT KAUAI STATE OFFICE BUILDING
3060 EIWA STREET, 2ND FLOOR CONFERENCE ROOM,
ON THURSDAY, SEPTEMBER 22, 2005,
IN THE COUNTY OF KAUAI, STATE OF HAWAII

The Board of Directors of the Housing and Community Development Corporation of Hawaii met for a regular meeting at 3060 Eiwa Street, 2nd Floor Conference Room, on Thursday, September 22, 2005 at 9:00 a.m.

The meeting was called to order by Chairman Charles Sted and, on roll call, those present and absent were as follows:

CALL TO
ORDER/
ROLL CALL

PRESENT: Director Francis L. Jung
Director Charles King
Designee Rick Manayan
Director Charles Sted
Director Linda Smith
Director Travis O. Thompson

Executive Director Stephanie Aveiro

EXCUSED: Designee Henry Oliva

Staff Present: Sandra Ching, Deputy Attorney General
Pamela Dodson, Executive Assistant
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Michael Hee, Contracts Section Administrator
Stan Fujimoto, Project Manager
Shirley Higa, Board Secretary

Others: Sandra Kido, HCDCH Kauai Area Manager
Anna Miyamoto, HCDCH Kauai Area Office
Shirlynn Harthcock, HCDCH Kauai Area Office
George Yamashita, Hui O Hanamaulu Tenant Association
Arde Long Yamashita, Hui O Hanamaulu Tenant Association
Gloria Taogoshi, Hui O Hanamaulu Tenant Association
Bonnie Manguchei, Hui O Hanamaulu Tenant Association
Marvin Awaya, Pacific Housing Assistance Corporation

The Chairman declared a quorum present

QUORUM

Director Jung moved, seconded by Designee Manayan

That the minutes of the Regular Meeting held on
August 18, 2005 be approved as circulated.

The motion was unanimously carried.

APPROVAL
OF
MINUTES -
REGULAR
MEETING -
8/18/2005

Director King moved, seconded by Designee Manayan

That the minutes of the Special Meeting held on
September 8, 2005 be approved as circulated.

APPROVAL
OF
MINUTES -
SPECIAL
MEETING -
9/08/2005

Director Thompson moved to amend the minutes with the following changes:

Pg. 38, paragraph 7, 2nd line,

"...and are generally supportive of ~~earing~~ carving out the..."

Pg. 43, Executive Session, the motion should read:

"That the Board meet in Executive Session at 11:07 a.m. to consult with its legal counsel regarding the duties and obligations of the Board as they may relate to personnel matters relative to the organizational change."

Director Jung seconded the motion. The motion was unanimously carried.

The Chairman then asked for a vote on the main motion to approve the minutes; motion was unanimously carried.

Newly elected officers of the Hui O Hanamaulu Tenant Association who were present were introduced:

Arde Long Yamashita, President;
George Yamashita, Vice-President;
Gloria Taogoshi, Secretary; and
Bonnie Manguchei, Sgt. at Arms.

ACKNOWLEDGMENT
OF NEW
OFFICERS
FOR THE
HUI O
HANAMAULU
TENANT
ASSOCIATION

The entire Board offered their congratulations to the newly elected Board members and expressed their appreciation for their dedication to the community by serving on the Board.

Executive Director Stephanie Aveiro stated that the report should be corrected to reflect on page 1 of the Housing Development section, that in her meeting regarding the Villages of Leialī held on September 16, 2005, Office of Hawaiian Affairs (OHA) trustee Boyd Mossman, was not in attendance. Ms. Aveiro did meet with Everett Dowling of Dowling Co., Inc. who is developing the land in Leialī for the Department of Hawaiian Home Lands (DHHL). Discussions with the parties will continue as the developer and OHA have expressed great interest in the master plan.

OFFICE
OF
EXECUTIVE
DIRECTOR
REPORT

Director Thompson asked what would be the next step in the process of development.

Ms. Aveiro stated that the procurement process would need to be followed by issuing a Request for Proposals (RFP). She added that the meeting was preliminary. The developer is exploring the possibility of partnering with HCDCH and OHA due to previous work that was done as evidenced by a pro forma that Mr. Dowling had shared with them.

Executive Assistant Pamela Dodson noted that the discussion was very preliminary as there have been no commitments made by any of the parties involved.

Director Thompson then asked how DHHL, as a state agency, was able to award the contract while HCDCH has not come to that point yet. The procurement process should help expedite the process with all properties owned by HCDCH.

Project Manager Stan Fujimoto commented that development has been suspended due to the ceded lands issue in the courts. However, it is his understanding that DHHL issued an RFP for Village 1 which was subsequently awarded to Dowling Co.

In response to Director Thompson's request. Mr. Fujimoto will provide him with a copy of the RFP issued by DHHL.

Director Smith commented that the 9th Circuit Court has recently ruled on the ceded lands issues approximately 2-3 weeks ago. As this ruling has been issued, would staff now be able to determine whether the agency can move forward with development of ceded lands.

Ms. Aveiro stated that her understanding of the ruling was that it did not address the issues that OHA has with HCDCH.

Chief Planner Janice Takahashi stated that there is a specific suit which was initiated because of Leiali'i against HCDCH by OHA and others regarding development of ceded lands. The court ruled that ceded lands could be alienated or sold for housing purposes. However another part of the lawsuit was the valuation of the lands. This has yet to be scheduled.

Ms. Aveiro added that staff had planned to update the Directors about this issue as one of the litigation items in Executive Session. She then continued with her report on the Memorandum of Agreement (MOA) that is scheduled to end on September 30, 2005.

Executive Assistant Pamela Dodson commented that the meeting with HUD was very productive which ended in agreement to close out the current MOA with the 120 items that HCDCH was tasked with. Although all items have not been completed, and HCDCH will still be considered a "troubled" agency until March 2006 when the Real Estate Assessment Center scores are certified, it was agreed to close out the current MOA and have an amended MOA which would include four core areas:

- Tenants Accounts Receivables (TAR);
- Vacant Units;
- Work Orders; and
- Information Technology.

Ms. Dodson further stated that HUD stated that HCDCH has accomplished much in the past year and that it will no longer be considered troubled next year.

The Chair asked if the amended MOA would need to have action taken by the Board at the next meeting, to which Ms. Aveiro stated that it would be.

Director Thompson suggested that HUD be invited to the Board meeting and report on the progress that the agency has made together with an explanation of the amended MOA.

Ms. Aveiro also commented that staff has worked closely with the current software vendor who, after much discussion, has provided the agency with excellent technical assistance to the staff which has resulted in meaningful reports that have been lacking in the past. She then introduced Kauai Area Manager Sandra Kido who has been able to manage and extract the necessary information from the current system.

Ms. Kido commented that over the past year changes have been made to the system resulting in faster processing of information; less errors and improved accounts receivable reports.

Ms. Aveiro added that during the past six years, the wrong information was being inputted into the system that resulted in poor reports. Ms. Kido gave an example of the TAR report which was an 8-page report listing names and zero balances. Significant improvement has resulted with a delinquency report indicating no delinquency and being only 1/2 page in length. Very reliable reports are being generated.

Ms. Aveiro stated that staff is now able to use the reports to make their work more efficient. The next level would be to provide reports to the Board that can be used to assist in its decision-making. HCDCH's systems analyst has been continuously working with the software provider to identify and correct all the flaws in the system which have not been addressed for the past six years to get to the next level of better reporting mechanisms which will fulfill HUD's requirements such as how many turnaround days to rent a vacant unit.

Director Smith summarized the components of information technology as :

- Software;
- Data; and
- Input and data retrieved by personnel.

The current situation appears to address the first two components as the computer programs has been determined to be correct by developing the necessary reports and the data input has been cleaned up after six years. The third component is the staff when they are able to use the programs efficiently and then the agency can move forward.

Ms. Aveiro agreed with Director Smith's summary adding that hardware would be another component. The current system does not allow HCDCH to upgrade its hardware similar to other public housing agencies that staff will need to address. Funds for this new hardware and software have been budgeted.

Continuing with her report, Ms. Aveiro highlighted other activities as follows:

- Meetings with the State Civil Defense as well as the American Red Cross were held in the wake of Hurricane Katrina to ensure that the agency is prepared in cases of emergency;
- Villages of Kapolei exit plan discussions continue with the Association; and
- Discussion held with Senior Consul General Danny Rescue to improve relations with the Micronesian community in the housing projects.

Ms. Aveiro also reported on the budget reviews that were held with staff regarding their budgets for FY 2005-2006. This is the first time staff has gone through this process. Staff will now have a budget to follow the next fiscal year and it is hoped that this will lead to better and more accurate reporting. This is the internal budget that is very detailed such as purchasing appliances for the various projects, computers, etc.

The agency-wide budget that was discussed at the Special Board Meeting held on September 8, 2005, is one that is submitted for approval by the Department of Budget & Finance (B&F) and the Department of Human Services (DHS) as it is a part of the Executive budget that is presented to the State Legislature. This budget focuses on personnel and salaries as well as Capital Improvement Project (CIP) funds. In response to the Chair's query as to when the Board will be able to review this budget, Ms. Aveiro stated that it will be reviewed later as part of Agenda Item No. 10, Conceptual Approval of Draft Plan to Implement the Reorganization of HCDCH Pursuant to Act 196, SLH 2005. This budget will be submitted to DHS on September 23, 2005.

Director Smith asked if there was a timetable as to the exit plan for the Villages of Kapolei. Ms. Aveiro stated that there was a date established and that will be shared with the Board later. Ms. Dodson noted that meetings with the Association has been scheduled bi-weekly to keep the discussions moving to which Ms Aveiro added that each party was tasked with specific points to address at the following meeting.

Director Smith then asked if there would be any follow-up meeting to Ms. Aveiro's meeting with the State Drug Control Liaison, Tamah-Lani Noh to include targeting their work in the public housing projects. Ms. Aveiro stated that staff was able to have the office include not only the schools, but HCDCH in its program and raise its awareness that HCDCH should be considered a key player.

Director Smith further asked Ms. Aveiro to elaborate on her meeting with staff regarding the vacant lots at Waiahole Valley. Ms. Aveiro stated that it was determined that in order to pursue self-management on the part of the Valley residents, guidelines should be established. An initial meeting with herself and David Chinen, President of the Waiahole Waikane Community Association is currently scheduled. Ms. Aveiro also stated that this meeting is hoped to establish basic rules such as who will be the participants, as a request by another community organization has been received to be involved, whether the attorneys should be included, etc.

Director King then asked about the termination of the office space held by Palama Settlement at Mayor Wright Housing. Ms. Aveiro stated that there are both supporters and non-supporters of the program being on the project's grounds by using a 3-bedroom unit. Staff believes that the 3-bedroom unit would be better used by someone who needs housing. Staff therefore terminated the lease and will in the future monitor non-profit organizations located in its projects as it is believed that it would be more beneficial for units to be used as residences.

Director Thompson asked if it would be possible to get an aging detail on the vacancy report by the next Board meeting which would reflect the progress made as the number of vacancies appear to remain approximately 700 each month. Information such as reducing the amount of time that the units are vacant would be helpful to both management and the Board.

Ms. Aveiro explained that the three levels of responsibility for the repair and maintenance of the vacant units that are categorized according to the extent of the repair work adds to the complexities of the reporting. She estimated approximately 47 units were filled. Leveraging capital funds to obtain more funds to do the repairs is being done. Staff has also been directed to refrain from the past practice of focusing on the modernization of two projects that used the bulk of the capital funds. Funds will now be used for all projects needing repair work.

Director Thompson suggested that the entire agency should be encouraged to work together to reduce the vacant units as quickly as possible as the number of vacancies is too excessive. He also asked if the problem is a lack of funds that the Board may be able to assist staff to obtain. Ms. Aveiro stated that staff will request the Board's assistance at the appropriate time.

Ms. Aveiro then continued her report with the status of the letter from Sen. Donna Mercado Kim noting that there have been more questions received by Sen. Kim as a result of the response by the agency. Director Smith asked if the request and response by the agency is in writing. Ms. Aveiro stated that the request by Sen. Kim was for all the Office of Executive Director reports which staff has transmitted to the Senator.

Ms. Aveiro then reported on a project that the agency has been participating in with Good Beginnings Alliance (GBA), Aloha United Way and the Kuhio Park Terrace (KPT) Resident Association. A playground at KPT is almost complete with approximately \$100,000 needed to complete the project for the children. It has been suggested that the Board recognize GBA to show its support for the project.

Prior to the playground, Contracts Section Administrator Michael Hee commented that there was a play area for the children but due to construction, this area had to be removed. Ms. Aveiro added that although there is a shortage for the completion, the residents have actively raised funds through fundraisers to complete the project.

Ms. Aveiro noted that a new subsection has been added to her report. Board-related correspondence was added to the agenda to enable all Directors to be kept abreast of correspondence to/from the Chair or correspondence to herself that may relate to the Board.

Director Thompson reported on the activities of the Finance & Audit Subcommittees. Unaudited Real Estate Assessment Center (REAC) scores were submitted and accepted by HUD on its first submittal which is a big accomplishment on the part of staff. The draft audit of the agency will be available in October which is another significant improvement from the previous years as far as timing is concerned.

FINANCE
AND
AUDIT
SUBCOM-
MITTEES
REPORT

Ray Adair has developed policy statements for the agency and these will be adopted by the Board in the near future. Director Thompson expressed his gratitude for the excellent work that was performed by Mr. Adair for the agency.

Stephanie Aveiro stated that the Organization Subcommittee was established to discuss the separation of the agency into two entities which determined against such action. However, due to the Legislative action of splitting the agency, this has been expanded to the entire Board. As the subcommittee has met its original intention, the Chair declared that the subcommittee be sunsetted.

ORGANI-
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MITTEE
REPORT

As a result of discussion at a previous Board meeting, the Chair appointed Director Smith to serve on the subcommittee with himself to work with staff on this particular item.

ASSET
SUBCOM-
MITTEE

Staff's recommendation was presented as follows:

ADOPTION
OF THE
APPROVED
AND THE
REJECTED
PROJECT
LISTS
RENTAL
HOUSING
TRUST
FUND
PROGRAM
PROJECT
AWARDS
FY 05
FUNDING
ROUND

That the Board of Directors of the Housing and Community Development Corporation of Hawaii:

- A. Approve the approved Project List for the FY 05 funding round for Project Awards, subject to the following provisions and conditions:
 - 1. The approval of the Approved Project List does not obligate nor guarantee that any and all applicants on the Approved Project List will receive funding;
 - 2. The HCDCH may elect to select, reject, or defer an applicant's request, if the HCDCH judges such action to be in the best interest of the Program;
 - 3. The amount of an award is subject to availability of Program funds. The HCDCH is not obligated to approve or fund the full amount of the applicant's request;

4. The actual form, terms, and conditions of each award shall be determined by the HCDCH and are subject to negotiation between the applicant and the HCDCH, and the completion of all appropriate legal documentation satisfactory to the HCDCH and its legal counsel;
5. The approval of each award and the disbursement of funds are subject to the final approval of the Governor of the State of Hawaii; and
6. The applicants will agree to abide by all the terms and conditions that may arise due to the use of public funds.

B Authorize the Executive Director of the HCDCH to take all action necessary to effectuate the purposes of the For Action.

Director Thompson, seconded by Director King

That staff's recommendation be approved.

Finance Branch Manager Darren Ueki explained that staff received three applications for the funding round for fiscal year 2005. Three applications were submitted of which one was subsequently withdrawn. The remaining two applications are for the Nanaikeola Senior Phase III and Senior Residence of Kapolei projects which would provide approximately \$2,369,000 in interim and/or permanent financing for development of approximately 94 rental units.

Appropriate staff evaluated the applications for feasibility of the projects based on scoring criteria that was established beforehand. Although both applicants were qualified to be placed on the "approved" list, funding is not guaranteed as other conditions apply as stated in staff's recommendation. Staff had concerns for both projects as indicated by the following:

Nanaikeola Senior Apartments, Phase III - The first phase of the joint development project has yet to begin as it has not yet been able to fulfill the requirements of the City & County of Honolulu. The schedule for Phase III may not be able to be followed due to the delay for the first and second phases of the project.

Senior Residence at Kapolei - Repayment of the loan will be very minimal until the expiration of the 30-year contract the developer has with HUD. HCDCH policy is that the owner must demonstrate the project's ability to repay the loan in a reasonable period of time. Another concern by staff is that the ground lease requires 80 units and the developer is proposing 60 units.

Mr. Ueki then introduced Marvin Awaya representing the developer, Pacific Housing Oahu Corporation, for the Senior Residence at Kapolei.

In response to Director Smith's query regarding the available funds in the RHTF, Mr. Ueki stated that there is approximately \$15 million available. Director Smith then asked why the third applicant withdrew its application to which Mr. Ueki stated that since it was determined that the Dwelling Unit Revolving Fund (DURF) could be used for permanent financing, the applicant decided to pursue that course of funding.

Executive Director Stephanie Aveiro asked Mr. Awaya to review the contents of his letter that was distributed to the Board.

Mr. Awaya addressed the Board stating that the letter was, among other things, intended to provide additional information to the Board members due to staff's concerns about the repayment issue. Should the project go forward, it would be a high leverage to the state as far as federal funds are concerned due to their commitment of HUD for \$10,745,400 coupled with the use of HOME funds from the City & County of Honolulu for \$750,000.00. This equates to approximately 11:1 leverage as the RHTF loan is for \$1 million.

Mr. Awaya further stated that not only are Federal funds to be used to develop the project, but the project will also receive an operating subsidy from HUD of approximately \$233,900 per year. Elderly residents whose incomes do not exceed 50% of the median family income will be eligible to reside in the project. Should the RHTF funds be awarded, six of the units could be rented to families earning up to 30% of the median family income. Based on a 40-year period, Hawaii would be able to receive \$11,434,523 in federal funds for operating subsidies.

He acknowledged that the repayment of the \$1 million RHTF loan would be repaid after a lengthy period of time. However, the Board may be able to provide staff with guidance as to whether or not this is another alternative that they should pursue considering the amount of federal funding that will be generated into the state.

The Chair asked the following questions of staff:

- If there was an alternative use for the approximate \$1 million which would return the funds to the RHTF in a faster period of time; or
- if there is any statute regarding loans that would be applicable to the application.

Mr. Ueki answered that there was none under both circumstances;

In terms of economics of the project, the Chair asked Mr. Awaya if the project could not go forward without the loan as described with its repayment timetable. Or, if there is a possibility of a more accelerated repayment schedule, how would it affect the outcome of the project.

Mr. Awaya stated that there is a possibility of accelerated payments but it would be very little at the beginning. Should there be residual receipts or excess income at the end of the year, it may be possible to ask for a release of the funds due to the second mortgage. However, should this occur, the standard practice would be that a rent increase is not allowed the following year by HUD. Mr. Awaya further stated that it is difficult to predict whether there will be residual receipts. He also added that HUD has recently established regulations for mixed financing projects that was specifically designed for HUD 202 projects with tax credits projects that would limit the developers as non-profit or government entities to participate in the program.

Mr. Ueki commented that the next funding round would be in 2006 and that there is a balance of \$15 million in the RHTF and that the conveyance tax will also increase the available funds. Staff however is concerned about the long-term viability of the RHTF. In addition, the project has been downsized from 80 units to 60 units over the two-year period this project has been in discussion with the developer.

Director Thompson asked what has then happened to the 20 units to which Mr. Awaya answered that it would have taken an additional \$5 million. It was decided to request the minimal amount needed due to the longevity of the loan adding that the main focus of the project is to demonstrate the leveraging of federal funds

Mr. Ueki, in response to Director Smith, stated that a typical RHTF loan would begin to be repaid in 20 years as it is usually in line after the first mortgage that is usually 20 years.

Director Smith then referred to the Nanaikeola Senior Apartments III that has not begun Phases I and II and are requesting for additional funds. She asked if there was a deadline placed on which the developer must begin its work. Mr. Ueki stated that if the minimum of nine months is not met, staff would seek guidance from the Executive Director who has the ability to extend commitments for an additional nine months.

Director Thompson asked if there was any prediction as to how much the RHTF will increase. Mr. Ueki answered that staff estimates approximately \$4-5 million annually.

Director Thompson further asked what would be staff's target for the \$15-20 million that would be available. Mr. Ueki answered that over a five-year period, staff is projecting about 3-5 projects per year with approximately \$5-7 million being made available. He commented that in the past, the RHTF had as much as \$40 million. With the reduction of available funding, staff is concerned about the repayment schedule for the Senior Residence at Kapolei project.

Executive Director Stephanie Aveiro commented that another concern by staff is that as the available funds become less, the number of applicants decreases.

Director Thompson commented that the Kapolei project is setting a new criterion for the program with regards to leveraging. The loan is almost given away due to the repayment schedule. He further stated that he is inclined to approve the proposal as there were no other applicants and that 60 units will be built.

Mr. Ueki stated that due to the paperwork involved as well as the short turnaround time for submittal for the 2005 funding cycle, he believes that this is why there was limited amount of interest.

Chairman Sted summarized that staff is currently requesting for preliminary approval of the two applicants and will again ask for the Board's final approval before awarding the tax credits/loan. Mr. Ueki confirmed the Director's summary statement of the action before the Board. The Chair then asked for a vote on the motion; the motion was unanimously carried.

Director Thompson moved, seconded by Director King

RECESS

That the Board recess at 10:25 a.m.

The motion was unanimously carried.

Staff's recommendation was presented as follows:

Staff respectfully recommends that the Board of Directors of the Housing and Community Development Corporation of Hawaii:

- A. Approve an increase in the reservation of Low Income Housing Tax Credits to the Kauhale Olu I, II and III project from \$380,022 to up to \$405,424 in annual federal and from \$114,066 to up to \$121,627 in annual state tax credits, subject to the requirements as set forth in For Actions dated April 14, 2005 and August 18, 2005.
- B. Authorize the Executive Director to undertake all tasks necessary to undertake the intent and purposes of this For Action.

Director Thompson moved, seconded by Designee Manayan

That staff's recommendation be approved.

Finance Branch Manager Darren Ueki explained that at the last Board meeting, the Board adopted Resolution No. 098 which approved the issuance of the \$6.165 million in tax-exempt volume cap from the Hula Mae Multi-Family (HMMF) program for this project. Due to the increase in development cost, the developer has requested an additional reservation of approximately \$25,402 in annual federal and approximately \$7,621 in annual state tax credits. The scope of work has also changed that will extend the useful life of the building. Instead of cosmetic work, the developer is proposing to do more extensive work such as re-build staircases and replacing cabinets rather than refinishing them.

Designee Manayan asked when would the rehabilitation begin to which Mr. Ueki answered that the contractor is ready to proceed once the financing is in place. It is currently being projected that the start of construction will begin at the end of the year.

There being no further discussion, the motion was unanimously carried.

Staff's recommendation was presented as follows:

That the HCDCH Board of Directors conditionally approve the Hawaii Coalition of Christian Churches' proposal for a new emergency, transitional and affordable rental housing project at the Uluwehi Apartments project site, as discussed in this For Action, subject to such other terms and conditions as may be required by the Executive Director.

Director King moved, seconded by Director Smith

That staff's recommendation be approved.

Project Manager Stan Fujimoto reported that there was only one proposal submitted in response to the Request for Proposals (RFP) that was issued on March 21, 2005 and was due on July 15, 2005. Hawaii Coalition of Christian Churches (HCCC), a newly created non-profit corporation comprised of more than 30 churches of various denominations proposes to develop, own and operate an emergency, transitional and affordable rental housing project consisting of a total of 72 units. An additional 40 beds in two dormitories is also being proposed.

REQUEST
TO
INCREASE
RESER-
VATION
OF
LOW
INCOME
HOUSING
TAX CREDITS
FOR THE
KAUHALE
OLU I, II
AND III
PROJECT
LOCATED
IN
PEPEEKEO,
ISLAND
OF
HAWAII

CONDI-
TIONAL
APPROVAL
OF A
PROPOSAL
FOR A
NEW
PROJECT
AT THE
ULUWEHI
APART-
MENTS
PROJECT
SITE IN
WAIANAE,
OAHU,
HAWAII;
TMK
(1)8-5-27:71
& 73

The project is modeled after the Ka Hale A Ke Ola homeless shelter program on Maui. This project is owned by the Maui Economic Concerns of the Community, Inc., with Charles Ridings as the Executive Director. The program has been in existence for 13 years and has an 80% success rate with its residents. Mr. Ridings has been providing technical assistance to HCCC.

The proposed project will offer a variety of social services such as mental health programs, substance/spouse and/or child abuse prevention, and job training in its efforts to address the homelessness and drug abuse problems in the community. The proposed debt-free budget of \$14 million would be funded by grants from State, Federal and non-profit organizations.

The annual operating budget is estimated to be \$900,000; annual rental income is projected to be \$400,000 - \$450,000. Grants and donations is anticipated to balance the budget.

Mr. Fujimoto further explained that a selection committee, comprised of HCDCH employees, Waianae community representatives as well as an accountant in private practice was formed. The selection committee has recommended approval of the proposal from HCCC with the following conditions to be satisfied within one year from the date the For Action is approved:

1. Resolution of concerns of the Uluwehi - Waianae Community Development Project Association and the Waianae Neighborhood Board;
2. Resolution of HCCC's tax-exempt nonprofit legal status; and
3. Submittal of more defined financial, management and service plans for the project.

Director King asked if the third condition was in response to the lack of rental income to meet the operating expenses. Mr. Fujimoto answered that it was as the Selection Committee had concerns as to how HCCC would be able to pay for the large amount of services projected.

Director King further asked if the Waianae Neighborhood Board had concerns about the emergency shelter being in close proximity of the intermediate school. Executive Director Stephanie Aveiro stated that the Ulu Wehi Community Association whose homes are adjacent to the property are definitely concerned about this.

Director King commented that condition no. 1 may not be possible to be completely resolved and addressed.

Ms. Aveiro stated that the Waianae community is very close with one another and all are aware of the homelessness problems.

Director Thompson asked how the determination would be made that condition no. 1 has been satisfied without any established criteria. He further expressed his concern that the Maui project took several years after housing the homeless. It evolved to a successful program in transitional phases. In comparison the ambitions of the proposed project, may need to be analyzed further to determine whether or not their goals are realistic or not. Although the intent of HCCC is good, to make the project succeed requires very talented, knowledgeable personnel who can motivate the residents and staff.

Director Smith requested that a listing of the churches with the respective leaders be provided to the Board due to the financing issues involved with the project.

Similar to Director King, Director Smith commented that condition no. 1 is an unfair burden to the project that will be addressing the emergency, transitional and affordable rental housing of the community. Meeting the concerns of the neighborhood will be an ongoing challenge and therefore condition no. 1 is very inappropriate to place on the project.

Director Smith then moved, seconded by Director Thompson

That Condition No. 1 be deleted from the For Action.

The motion was unanimously carried.

Director Jung asked what was the basis for condition no. 2. Mr. Fujimoto stated that the Selection Committee had concerns that HCCC still had not received the approval of its tax-exempt nonprofit legal status as they had submitted an application sometime ago and still had not received approval.

Director Thompson asked how the organization is structured to which Mr. Fujimoto stated that there is a Board of Directors and a project team has been formed.

Ms. Aveiro explained that HCCC would have attended the meeting had it been in Honolulu. She further explained that the organization needs a provisional commitment from HCDCH in order for them to move forward to request for financing of the project.

Director Thompson commented that he is aware of the need for the project in the community, and would encourage the organization to continue. However, HCCC needs to return to the Board with a plan as to how it intends to put it into action.

Director King asked if the Department of Education (DOE) is aware of the proposed plan. Mr. Fujimoto stated that he would check with DOE to ensure that they are aware of it.

Ms. Aveiro stated that the apartments that existed before the demolition without any programs was a much more dangerous environment than what is being proposed which will have controlled access and under close supervision by the personnel. Ms. Aveiro continued that the biggest challenge for HCDCH was discussing the project on its merits rather than on what the situation was like before the demolition had occurred.

Director Smith agreed with Ms. Aveiro about the challenges of changing the preconceived notion that the community may have. She then asked if staff believes that HCCC is a credible organization that is sincere in its drive to obtain the necessary financing in order to make the project succeed and if it is worth the investment of staff's time to pursue the proposal.

Mr. Fujimoto stated that he personally believes that the group is sincere in its efforts to make the project work as there is no profit to be made validating the lack of response from the for profit organizations.

Ms. Aveiro agreed with Mr. Fujimoto regarding the group's commitment to succeed. As a faith-based organization, she believed that if anybody could make the program work, it is this organization that can do it.

Director Thompson asked if the \$4.8 million Capital Improvement Projects (CIP) funds are available. Mr. Fujimoto answered that the funds are not available but whether to continue with the project is what HCCC needs guidance from the Board in order to proceed. Ms. Aveiro added that although the CIP funds were requested, the Legislature did not approve the funds for this project. HCCC will need to obtain Legislative approval to meet the \$4.8 million CIP funds that is necessary.

Director Thompson asked if the Board approves staff's request, HCDCH would still not be committed for the \$4.8 million CIP funds. Ms. Aveiro answered that HCDCH is not committing itself as the For Action is a conditional approval that still requires more action from HCCC and future approval by the Board.

There being no further discussion, the motion was unanimously carried.

Staff's recommendation was presented as follows:

That the HCDCH Board of Directors approve a budget of \$200,000.00 in DURF funds for the initial cleanup and periodic maintenance of the Remnant Lot and adjacent Inoaole Stream in the Hale Aupuni Subdivision project, Waimanalo, Oahu, Hawaii, as discussed in this For Action, subject to the following:

- A. Availability of DURF funds;
- B. Approval and release of funds by the Governor; and
- C. Compliance with all rules and regulations and such other terms and conditions as may be required by the Executive Director.

Director King moved, seconded by Director Thompson

That staff's recommendation be approved.

Project Manager Stan Fujimoto explained that the Hawaii Housing Authority developed the adjacent leasehold Hale Aupuni Subdivision on Kalaniana'ole Highway in 1975. The subject property is a remnant lot from the centerline of Inoaole Stream to the edge of the Subdivision.

In April 2005 HCDCH received a complaint from the office of Representative Tommy Waters requesting that the subject lot and the Inoaole Stream be cleaned due to its existing condition of overgrown vegetation, stagnant water and odor. As no bids were received for a small purchase procurement process, staff is proposing to issue an open bid for the cleanup work which has not been done over the past ten years. The \$200,000 would include the initial cleanup of the stream as well as periodic maintenance of the remnant lot and the adjacent one-half of Inoaole Stream.

Director Thompson asked if consideration was given to turning the property and the Stream over to the resident association for their care and maintenance as part of an overall pride in their community effort. Mr. Fujimoto stated that may be difficult due to the location of the remnant piece which runs along the back side of several homes. Accessibility issues would then need to be addressed.

Director Smith suggested that another option to consider might be to offer to the existing landowners and changing the boundaries of their properties to include the remnant parcel resulting in HCDCH divesting itself of the obligation.

Director Thompson asked if there was a recognized community association that staff could meet with and discuss the possibilities.

Chairman Sted asked how many years would it take to act on what is being contemplated, the implications of taking that much more time, vis-a-vis the apparent need to clean up the lot.

Ms. Aveiro stated that to delay the work might not be possible given the current condition it is in.

APPROVAL
OF DURF
BUDGET
FOR
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OF
REMNANT
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OAHU,
HAWAII,
TMK
(1) 4-1-33:193

Mr. Fujimoto stated that the cleanup process itself would be lengthy due to the bidding process.

Director Smith commented that discussion with Rep. Waters could include joining forces to meet with the Army Corps of Engineers who is responsible for flood control. During the interim, have the cleanup done and continue to work with the Representative to pursue the option of turning the property over to individuals or an organization as the subject property is under his jurisdiction. Director Thompson expressed his concern about using DURF funds for maintenance work. Mr. Fujimoto will check on the background of the subdivision as it may have been developed using DURF funds.

The Chair stated that the Board could either vote on staff's recommendation as is presented, or defer the matter in order to provide staff time to research the suggestions that were made and provide information that was requested by the Board.

Director Thompson moved, seconded by Director King

That the Board defer action until the next regular Board meeting.

The motion to defer was unanimously carried.

Staff's recommendation was presented as follows:

That the HCDCH Board of Directors:

1. Approve the proposed Chapter 17-2013 Hawaii Administrative Rules and the repeal of Chapter 15-175, Hawaii Administrative Rules;
2. Subject to the Governor's approval, authorize the Executive Director or her designated representative(s) to conduct public hearings on the adoption of Chapter 17-2013, Hawaii Administrative Rules and the repeal of Chapter 15-175, Hawaii Administrative Rules;
3. Authorize the Executive Director to make any non-substantive amendments to the draft rules prior to the public hearing; and
4. Following the public hearings:
 - a. Authorize the Executive Director to transmit Chapter 15-175 Hawaii Administrative Rules to the Governor for repeal; and
 - b. Authorize the Executive Director to transmit Chapter 17-2013, Hawaii Administrative Rules, to the Governor for final approval provided that no substantive amendments are made.

APPROVAL
OF
PROPOSED
CHAPTER
17-2013
"GENERAL
EXCISE
TAX
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AND THE
REPEAL
OF
CHAPTER
15-175
"GENERAL
EXCISE
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EXEMPTIONS",
HAWAII
ADMINIS-
TRATIVE
RULES

Director King moved, seconded by Designee Manayan

That staff's recommendation be approved.

Chief Planner Janice Takahashi explained that Act 196, Session Laws of Hawaii 2005 amended Section 201G-166, Hawaii Revised Statutes, to allow HCDCH to certify persons and firms who are involved with planning, designing, financing, constructing the sale or rental of privately initiated affordable housing projects to receive General Excise Tax (GET) exemption. Affordable rental housing projects would need at least 50 per cent of the available units designated for:

- Households with incomes at or below 80 per cent of the area median income; and
- Twenty (20) percent of the affordable units for households with incomes at or below 60 per cent of the area median income

Staff is also proposing to charge reasonable service fees for the approval and certification process. All fees would then be deposited into the Dwelling Unit Revolving Fund (DURF).

Ms. Takahashi reported that the proposed rules were reviewed by the Department of Taxation that resulted in limiting the time period in which claims for certification are processed to three years following the end of the taxable year for which an exemption is claimed.

Proposed fees are:

- \$200 for initial applications for certification as an eligible housing project;
- \$100 for subsequent filings; and
- \$120 for applications for annual certifications of rent.

Ms. Takahashi then requested that a change be made on page 9 of the proposed rules, section C, as follows:

"(C) A cover letter requesting the tax exemption, ~~and schedule A to department of taxation form G-37.7~~ which includes..."

Ms. Takahashi explained that reference to Schedule A is being deleted as it is pertinent to Use tax rather than GET.

Director Thompson referred to the determination of the service fees and noted that the applications for annual certifications of rent was estimated to be \$92.50 although staff is proposing to charge \$120. Ms. Takahashi explained that the hourly wages and time were provided for information only to the Board and will not be shown in the proposed rules. Executive Director Stephanie Aveiro added that the proposed \$120 charge reflects the negotiated increases that staff will be receiving.

There being no further discussion, the motion was unanimously carried.

Staff's recommendation was presented as follows:

That the Board of Directors of the Housing and Community Development Corporation of Hawaii approve, in concept, the draft plan to implement the reorganization of the Housing and Community Development Corporation of Hawaii pursuant to Act 196, Session Laws of Hawaii 2005.

CONCEPTUAL
APPROVAL
OF
DRAFT
PLAN
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IMPLEMENT
THE
REORGANI-
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HOUSING
AND

Director King moved, seconded by Designee Manayan

That staff's recommendation be approved.

Executive Director Stephanie Aveiro reported that the five-member task force for the reorganization was herself, Executive Assistant Pamela Dodson, Chief Planner Janice Takahashi, Finance Branch Manager Darren Ueki, Acting Administrative Services Officer Patti Miyamoto and Special Assistant Shirley Befitel.

Chief Planner Janice Takahashi reported that Act 196, Session Laws of Hawaii (SLH) 2005, was to address Hawaii's affordable housing and homelessness problems. A major provision of Act 196, Session Laws of Hawaii (SLH) 2005 is the separation of the HCDCH into two agencies effective July 1, 2006:

- Hawaii Housing Finance and Development Administration; and
- Hawaii Public Housing Administration

The Act also requires HCDCH to prepare an implementation plan for the reorganization of the State's housing functions, as well as submit a report to the Legislature 20 calendar days before it convenes. Ms. Takahashi then reviewed the draft implementation plan highlighting the major milestones that must be performed to accomplish the reorganization.

Ms. Aveiro commented that at the Special Board Meeting held on September 8, extensive discussion on the reorganization as it relates to personnel matters was done during the Executive Session. Noting that Director Smith was not able to attend the meeting, Ms. Aveiro asked if the Board would like to review the minutes of the Executive Session prior to moving forward on the For Action item.

Director Smith stated that she did read the public portion of the minutes of the meeting, but then the discussion ended and continued in Executive Session.

The Chair asked if there was a motion for the Board to meet in Executive Session to review the minutes of September 8, 2005. As there was no motion, the discussion continued.

Ms. Takahashi continued with her report on the milestones that included a detailed checklist of activities to be undertaken to ensure a smooth transition. The checklist is categorized and addresses all areas of operation of the two agencies.

Ms. Takahashi also informed the Board of testimony received from Marvin Awaya of Pacific Housing Assistance Corporation in support of separating the public housing area from the finance area.

Ms. Aveiro informed the Board that the reorganization is always an agenda item during her monthly meeting with all Managers. Director King asked Ms. Aveiro what reaction has she had with the other employees. Ms. Aveiro stated that the majority of staff is in support of the separation. Most employees, due to their functions within the agency, know which agency they will be assigned to. In a few cases, positions have been identified wherein they may select which agency they would like to be placed in. In cases where several employees may have a choice, criteria as to who may select which agency first, was established to ensure a fair process.

Director King asked how many people had to make choices. Ms. Aveiro stated that it is mainly the support offices such as accounting, planning and personnel.

COMMUNITY
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HAWAII
2005

The Chairman referred to the September 8, 2005 Special Board Meeting which had discussion on a financial statement. He noted that although the checklist is very detailed, it did not include the financial plan that should be added to the list.

The Chair further stated that staff could use the unaudited financial statements that are expected to be available in October 2005. He suggested staff separate the appropriate financials from the report and basically have two reports that can show a forward-looking financial statement that provides a balance sheet and an income/expense statement of each respective agency. This could then be used to project the financial condition of both agencies.

Finance Branch Manager Darren Ueki commented that there was discussion among staff with Chief Accountant Sherry Noguchi and Acting Administrative Services Officer Patti Miyamoto about providing that information to the Board but was unable to do so due to other deadlines that had to be met. The Chair stated that it was not expected at the meeting, but expects one sometime before the submittal to the 2006 Legislature.

Director Smith apologized that she was unable to attend the Special Board Meeting, however, she did have fundamental concerns about the separation and wanted to share them with the Board and staff. In reviewing the checklist, she became aware of the tremendous amount of time staff is expending on matters relating to new logos, distribution of office keys, etc. instead of focusing on providing more housing.

In her effort to understand the separation of the two agencies, Director Smith stated that she reviewed the history and legislation of the basis to combine the two organizations into one. In summary the basic premise of that legislation is still sensible for today. The synergy of the public housing and the development of additional housing would maximize and leverage the combined expertise. The entire rationale of the Task Force and the Legislature at that time was where to place HCDCH. It was initially placed in the Department of Business, Economic Development and Tourism (DBEDT) and then placed in DHS. Now the current plan is to separate the organization. This plan was to fulfill the fundamental goal of protecting the State's assets should HCDCH go into receivership and the Federal government taking its assets. However due to efforts of staff and the Board, this rationale does not apply. The threat of receivership is no longer on the horizon.

Director Smith continued stating that the initiative of separating the two agencies is no longer valid as making the agency a high performer can be done without the separation. Staff should no longer expend time, energy and staff resources to revise the rules to reflect the separation during the next nine months. Instead, staff should focus on fulfilling the agency's mission by providing additional homes.

Staff should return to the Legislature and report that the separation was reviewed, checklist was made and staff knows what to do, however, the timing is incorrect during the biennium period. HCDCH has established a good working relationship with HUD, an experienced and knowledgeable Board, a well-functioning staff, that the split is not necessary. Perhaps in the future it would be better, but in terms of the goals and accomplishments for housing and families, the current structure is capable of providing housing in Hawaii. Director Smith suggested that the agency concentrate on this effort in the next two months to determine what should be presented to the Legislature.

The Chairman commented that several points that were raised by Director Smith were also raised at the Special Meeting held on September 8, 2005 in particular the threat of receivership is no longer an issue.

Ms. Aveiro commented that the Board had its own Organization Subcommittee that reviewed the issue and determined that it was best not to separate; staff testified at the Legislature to not separate based on Director Smith's same arguments. Additionally the argument of benefits in providing continuum of care from the homeless population to the rental housing, and then to home ownership was addressed. The legislation originally was to split the agency in 2007 as one year should be used to plan the division as suggested by Sen. Ron Menor. However, the Legislature's final decision was to split in 2006.

The discussion at the Special Meeting had focused on any alternative that the agency had to return to the Legislature and not implement the statute. Staff's consensus was that there are no alternatives as this is legislation that was passed and it is a law that must be implemented by July 1, 2006. Ms. Aveiro further stated that it would be extremely discomforting to testify at the Legislature to acknowledge that this is the law, however, as the agency is not in agreement, there is no implementation plan and that the agency would prefer to continue discussions on either deferring it or not implementing it at all. She added that this is not an alternative for staff to elect and that it needs to move forward to meet the July 1 deadline. This is the day when Finance and Development (F&D) will be in DBEDT and Public Housing (PH) be in DHS. In accepting the Legislative decision to split the agency, it was determined to make the split the best possible. She acknowledged Director Smith's review of combining the two agencies to maximize its resources is correct. HCDCH has experienced two cycles of separating, merging, and now splitting again that is very disruptive to its planning processes. These factors all contributed to the issues that the agency has had to face in the past.

Ms. Aveiro continued that should the agency testify that the split not occur, many from the public sector will also testify in support of the separation. Taking this into account, Ms. Aveiro stated that she firmly believes that the split is inevitable and needs to be in place by July 1, 2006. Considering all this, to go before the Legislature without a plan would be extremely unfavorable for staff.

Chairman Sted asked about HUD's project-based accounting as it relates to the split. Ms. Aveiro stated that this would affect the agency tremendously as it will mirror the performance of the private sector. The reorganization transition plan proposed to the Legislature will allow for the separation of the State properties from the Federal properties and will allow staff to embrace the project-based accounting. As staff moves forward in the split, it is becoming apparent that this will be beneficial for the agency in the long term. In summary, the project-based accounting is affecting the decisions of how the split occurs and why it should be taken advantage of now and not later.

Director Thompson stated that he appreciated Ms. Aveiro's viewpoint of the split, however, the legislation is to place the F&D in one agency and PH in another. The placement of State-owned public housing properties in the F&D agency defeats the legislative purpose of placing all public housing in one agency. He further commented that he agreed with the continuum of services, and to separate the agency as it has been developed to the position where it is now, without any threat of receivership, does not appear sensible.

Ms. Aveiro agreed that when the Legislature divided the agency into F&D and PH, it might not have taken into consideration the many intricate details. This would entail the State-owned properties and Federal-owned properties that is affected by the project-based accounting. She continued that she is hopeful that staff will be able to assist the Legislature in determining that by placing the State-owned public housing projects in F&D, a better organization would evolve. However, this will not be possible, should the Board disagree with this position and direct staff to maintain all public housing properties in the public housing agency regardless of its ownership. If the Board should agree with staff, then

staff will begin its discussion with the individual Legislators to help them in its decision-making. Ms. Aveiro continued that in a tour of the public housing projects, it appeared that the Legislators who participated were interested in the State-owned properties like Palolo Housing that was leased and now managed by a private agency. This process is simplified when the properties are separated by ownership.

Director Smith stated that she shared the same vision as Ms. Aveiro but believes that it is possible without splitting the agency. Staff's time is better spent on focusing on housing rather than on the minor details such as the making of a corporation seal for the two agencies. Ms. Smith continued that it is not too late to go back to the Legislature and making credible argument that splitting the agency will not accomplish the mutual goal of providing more housing. She further stated that she is in agreement with an earlier comment at a previous Board meeting by a member of the general public about the confusion brought on by too many government agencies.

Director Smith acknowledged that there will be parties who will continue to support the split, however if staff is able to argue successfully that the agency should be maintained as an integrated, continuum organization, instead of expending time on bureaucratic reorganization.

Director Jung commented that the Legislature understands how much progress HCDCH has accomplished within the short timeframe. In sharing Director Smith's view, the problem of homelessness, not only for individuals but for families as well, is visible across the state, yet, the Legislature takes action to split the agency rather than focusing on the immediate basic housing and human issues. The Board has traveled across the state, touring the public housing projects, to observe first-hand the conditions that others may not have wanted to before. He further expressed his hope that the Legislature would support the agency constructively in what it was established for rather than its interest in reorganization.

In summary, Director Jung stated that he did share Director Smith's sentiments with respect to the use of everyone's time further regretting that the Legislature has required staff and the Board to devote time and energy to reorganization plans which could be better expended on the housing issues.

Director King commented that he understands the logic in the splitting as there are different functions. However in the long term, he believes that the two populations will be better served with the split. The timing, however, is too accelerated.

Designee Manayan stated that the people who would actually be impacted by the split, are in support of it as the cultures of the two proposed organizations are so diverse. Over the past years, this has been proven by the inconsistencies and differences between the cultures when the agency was merged earlier. He further stated that he believed that the split will bring more efficiency within the two organizations. As an example, the F&D will be administratively attached to DBEDT that already has Aloha Tower Development Corporation and Hawaii Community Development Authority that is undertaking massive projects. These agencies will be better able to enhance the F&D organization due to its similar culture of development. He concurred that the timing is not good but believes that overall the split is to everyone's advantage.

Chairman Sted requested clarification that if the majority vote of the Board should vote against staff's recommendation, would staff then stop its work on the organization and then focus on either stopping or delaying the split. He expressed his concern that the split is law and the agency would not be in compliance should it not follow the law. He asked whether it might be possible to do it simultaneously where staff would continue with its plan to reorganize and at the same time work at either stopping or delaying the reorganization.

Director Thompson commented that the amount of time expended by staff on the reorganization must be enormous, but did not have an alternate solution to not going forward with the split.

Ms. Aveiro stated that the draft Conceptual Plan was to generate comments and give guidance to staff. However, staff needs clear direction from the Board as to split or not and staff will proceed accordingly.

Director Smith noted that one of the requirements of the law is to submit a plan 20 days prior to the convening of the 2006 Legislature. This requirement does not preclude the agency from including in the plan draft legislation to not split. Acknowledging that the law has many good proposals that addresses such issues as salary level, teacher housing, and the composition of the resident advisory board. The agency can include in its report that the law be amended to not split the organization

Chairman Sted clarified, with Deputy Attorney General Sandra Ching concurring, that should the Board vote in favor of staff's recommendation, then staff would continue with the plan to split. On the other hand, should the Board vote against staff's recommendation, staff would then work on another conceptual plan that has a different approach.

The Chairman further stated that should the agency not be successful in a different approach, then the timeline to accomplish the split with a smooth transition, would then be that much shorter.

Referring back to discussions at the September 8, 2005 Special Board Meeting, the Chair stated his understanding was that as a governmental entity, the staff and the Board had no alternative but to comply with the law which was in the direction of the split. The only way to stop the split from proceeding would take action by private individuals or as part of an administrative legislative package to change the law.

However, it appears that there is another approach wherein the agency would be able to comply with the law but with a plan that is significantly different than what was contemplated by the Legislature.

Ms. Aveiro commented that it is able to implement the law as the first area it addresses is the composition of the two Boards. This is possible to have done by July 1, 2006. She believed that it would be extremely difficult to testify in front of the Legislature to report that it agreed with some of the proposals and not with the gist of the legislation that was for the organization to split.

Director Smith then stated that if the goals are to build more housing and to better manage the existing assets, then it would appear justifiable to use some of the elements of the law that could accomplish this goal without having to expend time on the reorganization. Staff would then need to include in its plan the rationale for not proceeding with the implementation of the split as it would prevent the agency from accomplishing the goals of the Legislature.

Director Jung believed that whether the agency agrees with the law or not, it needs to comply with the law. However, he agreed with Director Smith that this does not prevent the agency from doing more than what is expected. The conceptual plan can be adopted which would include proposals for their consideration, and still be in compliance with the law.

Director Thompson commented that considering the resources that HCDCH has, with all the details involved in the checklist, the short time frame does not appear to be feasible to accomplish the split by July 1, 2006.

Ms. Aveiro stated that at the onset, the Boards will need to be in place which begins with the Governor submitting 18 names to the State Senate for their consideration and confirmation. This can be done by July 1, 2006 and at that time the law is in effect and the Boards can appoint an interim Executive Director for both organizations. All programs have been defined. New positions will need to be established and filled and until then, DBEDT and DHS will need to assist. Ms. Aveiro further stated that what will make the implementation successful is that staff is extremely supportive and will make it succeed. HUD as well as members of the general public has also expressed their strong support for the split to go forward. However, should the Board deny the conceptual approval and decide that the agency should not split, then the staff will proceed as directed by the Board.

Director Smith commented that the Board's fiduciary responsibility is not to the staff but rather to the people living on the beaches and others who are homeless. The discussion on the split has diverted the Board's attention of accomplishing the main goal of providing housing. The agency can still be in compliance with the law by reporting that the law is incorrect and that the split is a fundamentally inappropriate mechanism to deliver the housing services. The conceptual plan can be used to explain why this is the case. The momentum of the agency with the knowledgeable Board that it has, can continue and with the establishment of a new Board, it appears to be antithetical. . Director Smith then offered to commit herself to assist staff to explain the plan that will meet the goal of affordable housing.

The Chair asked for staff to complete its presentation before the vote is taken on the recommendation. Janice Takahashi continued referring to page 3 to provide numbers that were not available previously:

"Staffing: The public housing administration will have approximately 400 positions. Approximately 3 of these positions will be created...

...Approximately 2 existing positions will be re-described...

The finance and development administration will have approximately 80 positions. Approximately 6 of these positions will be created...

...Approximately 5 existing positions will be re-described...

Supplemental budget Approximately \$14.2 million will be needed..."

For the F&D side, approximately \$4.0 million will be needed.

Ms. Takahashi further reported that the Capital Improvements Project fund (CIP) has not been determined as staff is calculating the cost of operations of the State Low Income Housing Program. The tenant rents for this program are calculated at 30% of the adjusted household income or a minimum rent. For the period ending June 30, 2005, total billings exceeded total rent collections by approximately \$103,200. Approximately \$1.8 million CIP will be requested. for major repairs at the School Street office location.

Beginning July 1, 2006 and until the organization charts are approved and new positions filled, some staff members may have to provide dual service to both agencies. DHS and DBEDT will also be requested to assist during this time.

Ms. Takahashi noted that the federal public housing is a very important program as the federal low-rent public housing provides 5,343 housing while assisting approximately 14,500 people statewide. HCDCH receives approximately \$12.5 million federal funds for the operating subsidies and \$13 million for capital and management improvements each year.

In 2004, HUD designated HCDCH as a "troubled housing agency" but we anticipate we will no longer be designated "troubled agency" for 2005. The goal of the public housing administration is to excel in its performance and become a "high" performer. In order to achieve this rating, the administration must focus only on the management of federal public housing programs that include Section 8 rent subsidies. Staff is therefore proposing:

- The State Low Income Housing Program (6 projects totaling 288 units);
- Teachers Housing Program (54 units); and
- Housing for Elders (5 projects totaling 576 units)

be transferred to the F&D administration as an interim measure. The long-range plan is to transform state low-income housing for families and the elderly to private ownership and management similar to the success of Palolo Homes. Teachers housing is proposed to be transferred to the Department of Education.

Ms. Takahashi concluded her presentation by summarizing several of the proposed legislation:

- Align the rights and obligations of the landlords and tenants to the Residential Landlord-Tenant Code rather than the Federal Eviction Process as it applies to Federal public housing programs;
- In addition to nominees submitted by the Resident Advisory Board (RAB), allow an eligible resident who is a participant in the federal public housing or Section 8 tenant-based program to submit an application to serve as the resident member on the HCDCH Board;
- Names of the two organizations be named Hawaii Public Housing Authority and the Hawaii Housing Finance and Development Corporation;
- Allow the Board of Directors to establish the salaries of the Executive Director and the Executive Assistant subject to the approval of the Governor; and
- Provide the public housing agency with bond authority and establish a public housing revolving fund.

Ms. Aveiro explained that the proposals were intended for the Board to review and provide staff guidance regarding any of the legislative proposals. The conceptual plan contains staff's suggested amendments to the law.

Director Smith commented that the conceptual plan has numerous ideas to make the agencies better; however, she pointed out that many of the accomplishments listed in the conceptual plan could be done without splitting HCDCH. As an example she stated that the Federal public housing eviction process can be separated from the State-owned properties by amending the rules.

Ms. Aveiro stated that currently staff manages both Federal and State owned properties. She agreed with Director Smith that the changing the administrative rules could be done. However, the split will allow the management to meet their challenges by changing their management practices thus enabling it to become a high performer.

Director Smith reiterated her position that staff can meet its goals by consolidating staff's efforts of working with the unions, amending its rules and still attain its goals without having to split.

In contrast to this, Ms. Aveiro stated that by embracing the law, staff can "go for the gusto" and make the division of the two organizations into one that will be beneficial to both parties.

Director Smith commented that staff should work with and help the unions to understand that the split is not the answer, the law could be used as a tool in the discussions with the unions.

The Chair asked if any other Board member had comments to give. As there was none, the Chair summarized the action that the Board is about to act on:

- . Should the vote be "yes" in favor to approve the draft Conceptual Plan, that provides staff with an affirmation to continue in the direction it has taken.

The Chair also asked staff how would individuals, groups, other interested parties or policy makers, whose agenda may differ from the Board's affirmative vote, be able to pursue their choice whether it may be to have the law reversed, delayed or amended

Director King stated that an alternative way to ask the question may be if voting on the For Action, will not preclude individuals/groups from taking other action.

The Chair agreed and commented that his main concern is that after the vote is taken, staff has clear direction. He also expressed another concern that organizationally as there are so many different parties involved, that problems can be created for staff if they were directed to proceed with the split yet simultaneously are expected to oppose it and have it reversed or delayed.

Ms. Aveiro commented that the Board could make amendments to the Plan. However, it would not be possible for staff to testify before the Legislature in support of the law and soliciting support from members of the public, while at the same time, individual members of the Board are testifying opposite of staff and also enlisting support from the general public. This is not a viable approach. The Board needs to be very exact in its direction to staff as to whether or not to support the law. Staff will follow the Board's decision but it needs to be very clear as to what that decision is.

Marvin Awaya, a member of the general public, addressed the Board. He agreed with Ms. Aveiro that staff needs very clear direction from the Board. He also suggested that the Affordable Housing Task Force might need to be recalled in order that the arguments from Director Smith could be shared and considered. Another suggestion would be to incorporate the Board's belief that 2006 is too accelerated and that needs to be extended to implement the split correctly. Mr. Awaya added that the Board may consider submitting a minority report to the Legislature along with the Plan.

Director Thompson expressed his concern that the law states that the agency must split with F&D on one side and PH on the other side. Yet, it is very disconcerting that the draft Conceptual Plan proposes to have state housing in F&D, bond authority is placed in housing side, change the methodology of the salaries of the administrators and other proposals, yet these proposals are to change the law and not implement it.

Ms. Takahashi explained that annually staff proposes to change laws to improve the agency in its mission. Should the proposed amendments not be adopted, the agency is still in compliance with the law. Act 196 ("Act") divides the agency

into two organizations effective July 1, 2006. Staff must provide a plan to the Legislature as to how the implementation will take place. The Act also allows the agency to propose legislative changes if it believes that the changes would be beneficial for the agency. The Plan and the budgets for both agencies must be submitted to the Legislature.

Director Smith commented that the agency has a choice that could be a plan outlining why the split is wrong. Requesting a change in the provisions along with additional legislative proposals that accomplishes the many proposals that are in the draft Conceptual Plan. The Board composition, proposed new salary determination, eviction process can all be included in a robust plan that is identified and developed to make the agencies perform more efficiently, that was analyzed at the same time and was concluded that the split was not sensible as the goals and objectives of the Legislature could be done without a split. The Legislature needs to re-think its position as it has in the past. As part of the Board's obligation we need to assist the Legislature in understanding that it should re-think its position.

Chairman Sted then gave his comments on the action before the Board. He referred to the time in February 2003 when he was first elected as Chairman of the Board. He shared with the Board his past experience with the housing agency as a young auditor when it was Housing Finance & Development Corporation (HFDC) and Hawaii Housing Authority (HHA). At that time it was obvious that there were cultural differences between the two agencies that still exist. The Chair noted that because of these differences, he understands the benefits of splitting the two agencies again. At his reappointment hearing before the Senate, the Chair stated that he testified that he believed that the timing was not right to split. He further stated that in listening to the presentations by staff at the September 8, 2005 Special Board Meeting and at the current Board Meeting, that he continues to believe that the timing is not correct. However, in order to move forward, he does support staff proceeding and as expeditiously as possible in order to meet the deadlines in a timely manner. The detailed checklist provided by staff, together with the forward-looking financial plans that he had suggested earlier, has satisfied his previous uncertainty of the split. The Chair further remarked that staff's passion to implement the split had much impact on him. He noted how powerful it is when a group of people has a great desire to act and how difficult it is for that group to act opposite of its true desires.

The Chair then asked each Board member if they had any further comments to make before the vote on the motion is taken. Director Thompson again expressed his concern about the timing but agreed with the Chair that it would be difficult for staff to proceed opposite of how it feels. He further expressed his hopes that between now and the end of the fiscal year, that the Legislature is able to review the split and decide to keep HCDCH as it is currently is. Communication between the Board and the Affordable Housing Task Force may have been poor as the Task Force did not approach the Board on this matter.

Director King commented that the split is something that can work and has respect for staff with the position that it has chosen to take.

Director Jung stated that the timing is challenging; however there is no alternative but to comply with the law. He understood that the Plan is conceptual and is subject to change and hopes that staff considers the changes that Director Smith had mentioned earlier.

Designee Manayan and Director Smith had no further comments to offer.

The Chair then asked for a vote on staff's recommendation which was to approve, in concept, the draft plan to implement the reorganization of the HCDCH pursuant to Act 196, Session Laws of Hawaii, 2005.

AYES: Director Charles King
 Director Francis L. Jung (w/reservation)
 Designee Rick Manayan
 Director Charles Sted
 Director Travis O. Thompson

NAYS: Director Linda Smith

The motion was carried.

(The Chair called for a recess at 12:50 p.m.; meeting reconvened at 1:10 p.m.)

RECESS

Executive Director Stephanie Aveiro stated that staff would like to inform the Board that new officers of the resident association have been elected. The Chair stated the Board's appreciation to both the new and former officers.

INFORMA-
TIONAL
ITEM -
ACKNOWL-
EDGMENT
OF NEW
OFFICERS
FOR THE
HALE
OHANA
O KAPAA
RESIDENT
ASSO-
CIATION

Chief Planner Janice Takahashi explained that the State Consolidated Annual Performance and Evaluation Report (CAPER) is submitted to HUD who then assesses the State's performance in meeting its goals, priorities and objectives of the Consolidated Plan. The Consolidated plan consists of a five-year strategy and annual action plans to address the affordable housing and the homeless primarily on the islands of Hawaii, Maui and Kauai.

CONSOLI-
DATED
ANNUAL
PERFORM-
ANCE AND
EVALUA-
TION
REPORT
FOR
PROGRAM
YEAR
2005
(7/1/2004 -
6/30/2005)

Ms. Takahashi requested that the following correction be made with regard to the amount of federal funds awarded for each program:

HOME Investment Partnership (HOME)	\$3, 322,108
Housing Opportunities for Persons with AIDS (HOPWA)	181,000
Emergency Shelter Grant (ESG)	<u>215,343</u>
	\$3,718,451

She then reviewed each program highlighting their goals and accomplishments during the past year. The HOME program is administered by the Finance Branch while the Homeless Section office administers HOPWA and ESG programs.

Executive Director Stephanie Aveiro highlighted the status report by Development Section which includes the non ceded land parcel in Kona which has had much interest expressed in the past by Directors Jung and Smith. HCDCH has requested that the land be returned to HCDCH. Ms. Aveiro requested that in anticipation of this transfer and before meeting with the County of Hawaii, that a subcommittee be appointed by the Chairman. The Chair then appointed Directors Jung and Smith to work with staff on the development of non ceded land in Kona.

HCDCH
STATUS
REPORTS

NON CEDED
LAND
DEVELOP-
MENT
SUBCOM-
MITTEE

Project Manager Stan Fujimoto updated the Board on the sale of lots in Kuliouou Subdivision stating that one sale has been closed and the closing of the remaining 16 lots is pending.

Designee Manayan moved, seconded by Director King

EXECUTIVE
SESSION

That the Board meet in Executive Session at 1:20 p.m.

* * * * *

Director Jung moved, seconded by Director King

ADJOURN-
MENT

That the meeting reconvene in regular session and be adjourned at 2:00 p.m.

The motion was unanimously carried.

LILLIAN KOLLER
Secretary

Approved: